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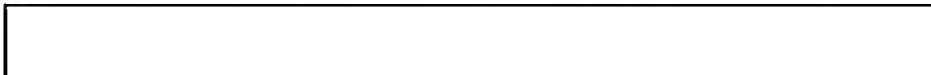
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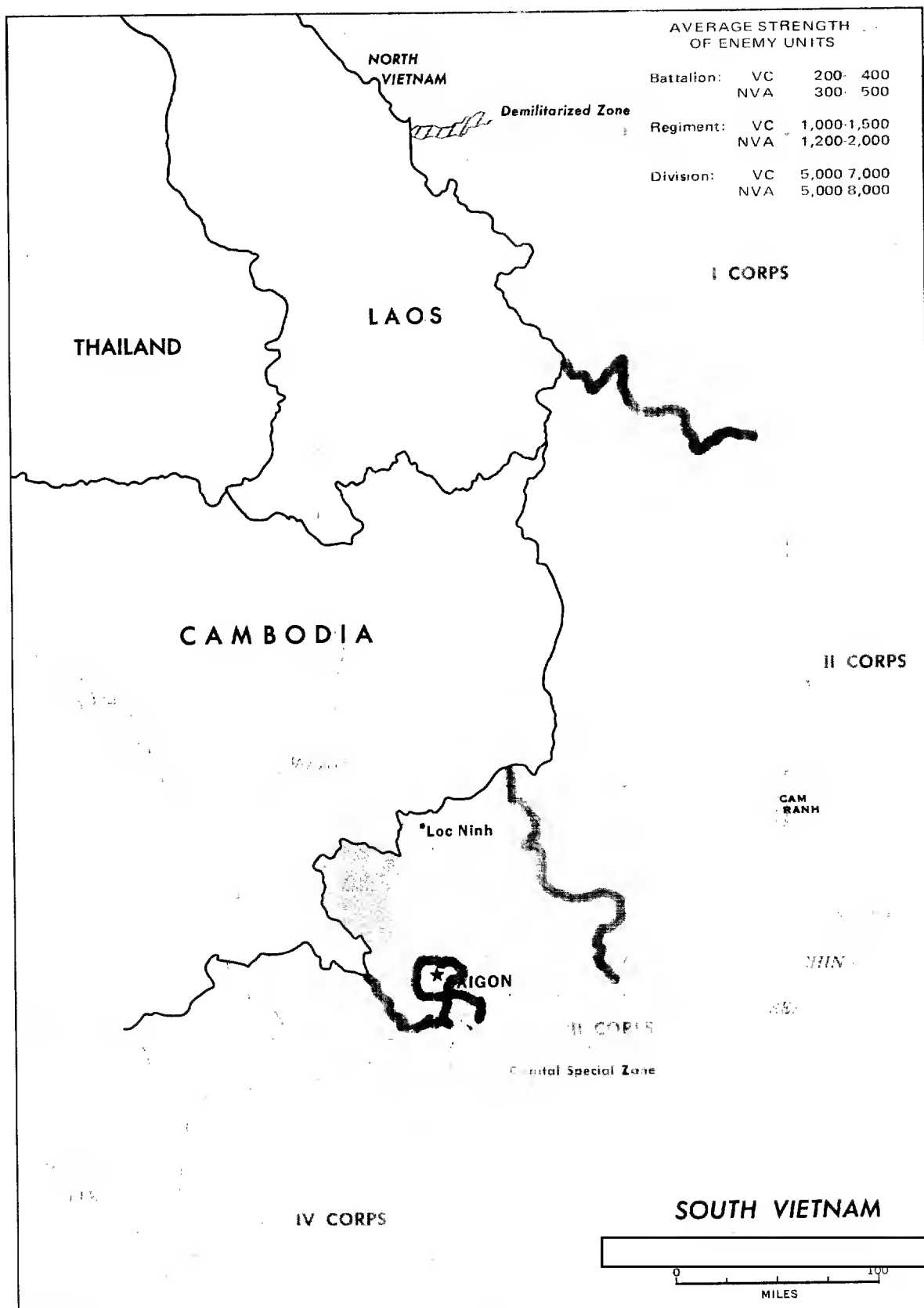
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Vietnam: Several brief but sharp engagements were fought north of Saigon along the Cambodian border on 14-15 August.

The Communists reportedly lost 64 men in three separate battles, two of which occurred near the town of Loc Ninh and the other in western Tay Ninh Province. Casualties on the allied side during the current "high point" are running in between the levels recorded during the previous enemy upsurges in May and June. Allied deaths during the three-day period 12-14 August total 479, compared with 404 deaths in the first three days of the June "high point" and 546 killed in the same period of the May "action phase." Communist losses for the same periods are 2,500, 2,600, and 3,300.

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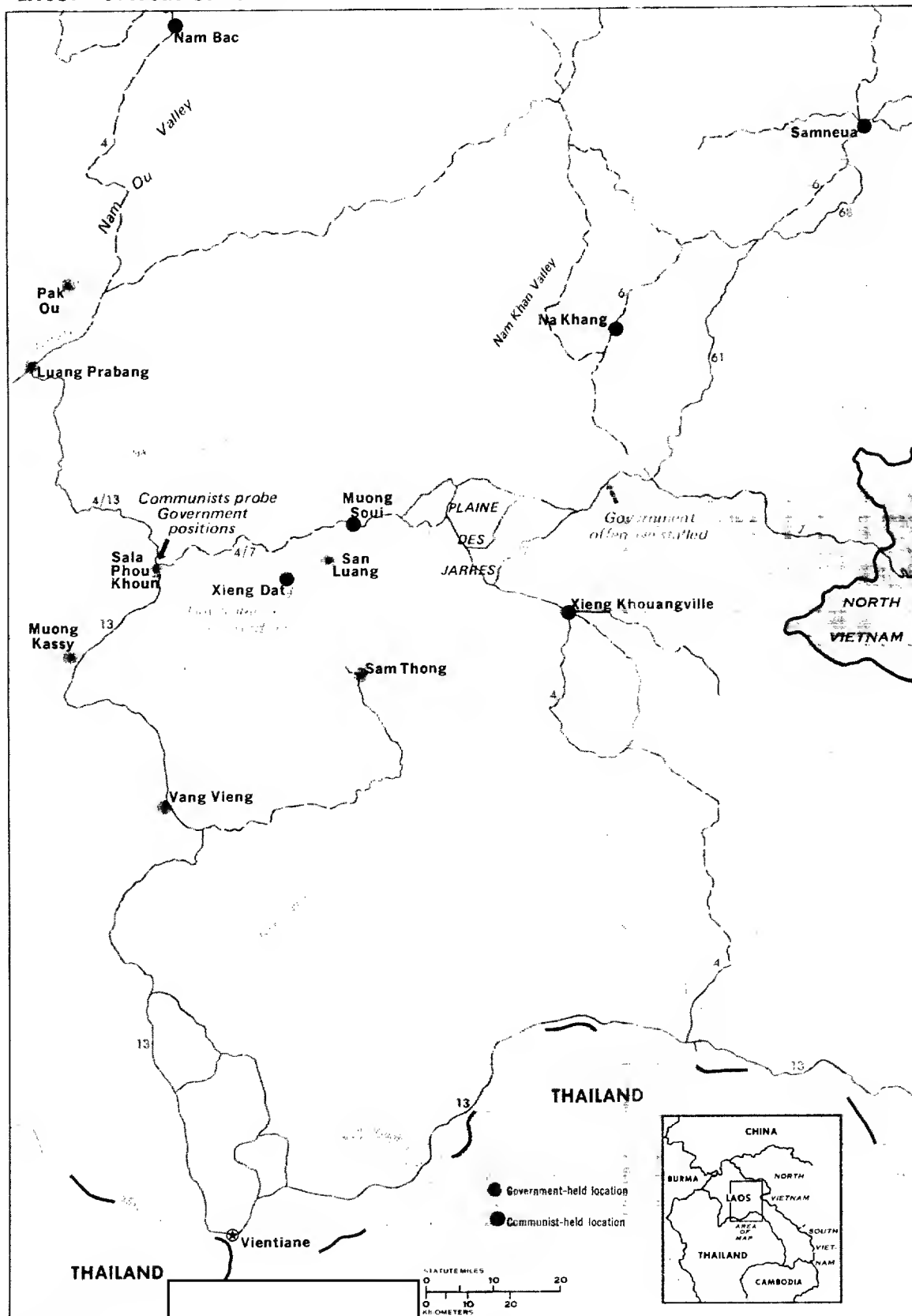
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LAOS: Current Situation



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Laos: Although no major attacks have been mounted since the fall of Muong Soui almost two months ago, the Communists are still maintaining pressure on government forces in north Laos.

Communist forces probed government positions near Sala Phou Khoun on 15 August in the heaviest action in that area in several weeks. Although the enemy was driven off, the attacks suggest that the Communists may hope to press the government to withdraw from the tactically important junction on Routes 7 and 13. Government commanders have been anticipating a major Communist drive into this area since the enemy took Muong Soui in late June.

In the Muong Soui area itself, progovernment neutralist forces have abandoned the outpost at Xieng Dat following several sharp enemy attacks. In addition, government troops are being withdrawn from the base at San Luang, in what appears to be a preliminary step to pull back to a more defensible position south of the Nam Ngum River.

The heavy monsoon rains are having a substantial impact on the level of ground fighting. On the government side, poor flying weather and the difficulty of moving troops overland have forced the temporary postponement of General Vang Pao's efforts to cut Route 7 and move against the enemy in the southern portion of the Plaine des Jarres. Weather and heavy airstrikes are also causing the Communists some difficulty in supporting their front line troops. There is no sign, however, that major enemy units are pulling back from forward positions.

In Vientiane, Lao leaders were given a psychological boost when six members of the North Vietnamese Embassy were arrested for alleged espionage. The arrests are not likely to sit well in Hanoi, which has been chafing over what it regards as capricious actions against its embassy in Vientiane. [REDACTED]

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Western Europe: The main trend in the international monetary markets since the French devaluation one week ago has been a shift from sterling to marks.

The pressure on sterling was aggravated Wednesday when the British Board of Trade released a disappointing set of trade returns for July. The Belgian franc also took a buffeting in the market. The pressure on both sterling and the Belgian franc subsequently moderated somewhat. This was due in part to the closure of many of the foreign exchange markets for a religious holiday yesterday.

The mark is expected to remain strong, particularly in view of the continued speculation that it will be revalued after the West German elections in September. The French franc held its own during the week. Flows of foreign exchange back to the Bank of France, however, have been relatively moderate.

The signs are clear that next week will be another one of tension on the foreign exchanges, and a full-scale crisis is always possible. [REDACTED]

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USSR - Communist China: No new fighting has been reported along the border, and both sides are treating the recent incident with relative restraint.

While Soviet commentary is still sparse, Moscow is beginning to elaborate on its version. A domestic broadcast on 14 August detailed Moscow's account of the clash and said that two Soviet frontier guards were killed and several wounded. The broadcast refrained, however, from the sort of emotionalism which came to characterize Soviet propaganda after the Damansky incidents in March. Instead it expressed the "sorrow and indignation" of the Soviet people over the current fighting. Commentary for foreign audiences has stressed Soviet moderation as well as friendship for the Chinese people while accusing the Maoist leadership of instigating the incident for domestic political gain.

The few protest rallies that have been held in China have fallen far short of the massive demonstrations last March. Domestic propaganda has called attention to the "large-scale Soviet military buildup" along the frontier and appears to reflect uneasiness over Moscow's current military intentions.

Nevertheless, Peking's principal international objective probably is to undermine the Soviet case in the border dispute and brand Moscow as the "aggressor." Conversely, continuing emphasis on war preparations in Chinese domestic propaganda still appears primarily designed to foster internal unity.

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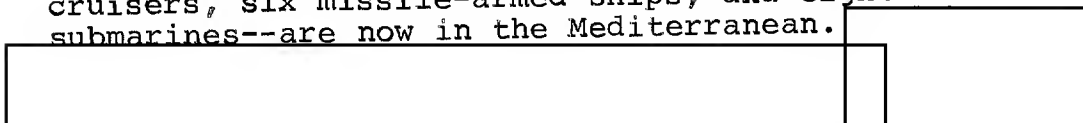
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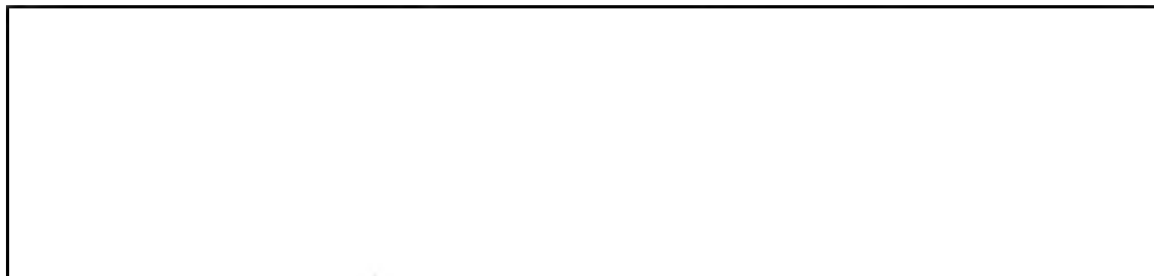
USSR-Mediterranean: The Soviet naval buildup is continuing, but some of the newly arrived units are probably passing through on their way to the Indian Ocean or the Pacific.

Four amphibious ships left the Black Sea yesterday, and some 53 Soviet ships--including three cruisers, six missile-armed ships, and eight diesel submarines--are now in the Mediterranean.



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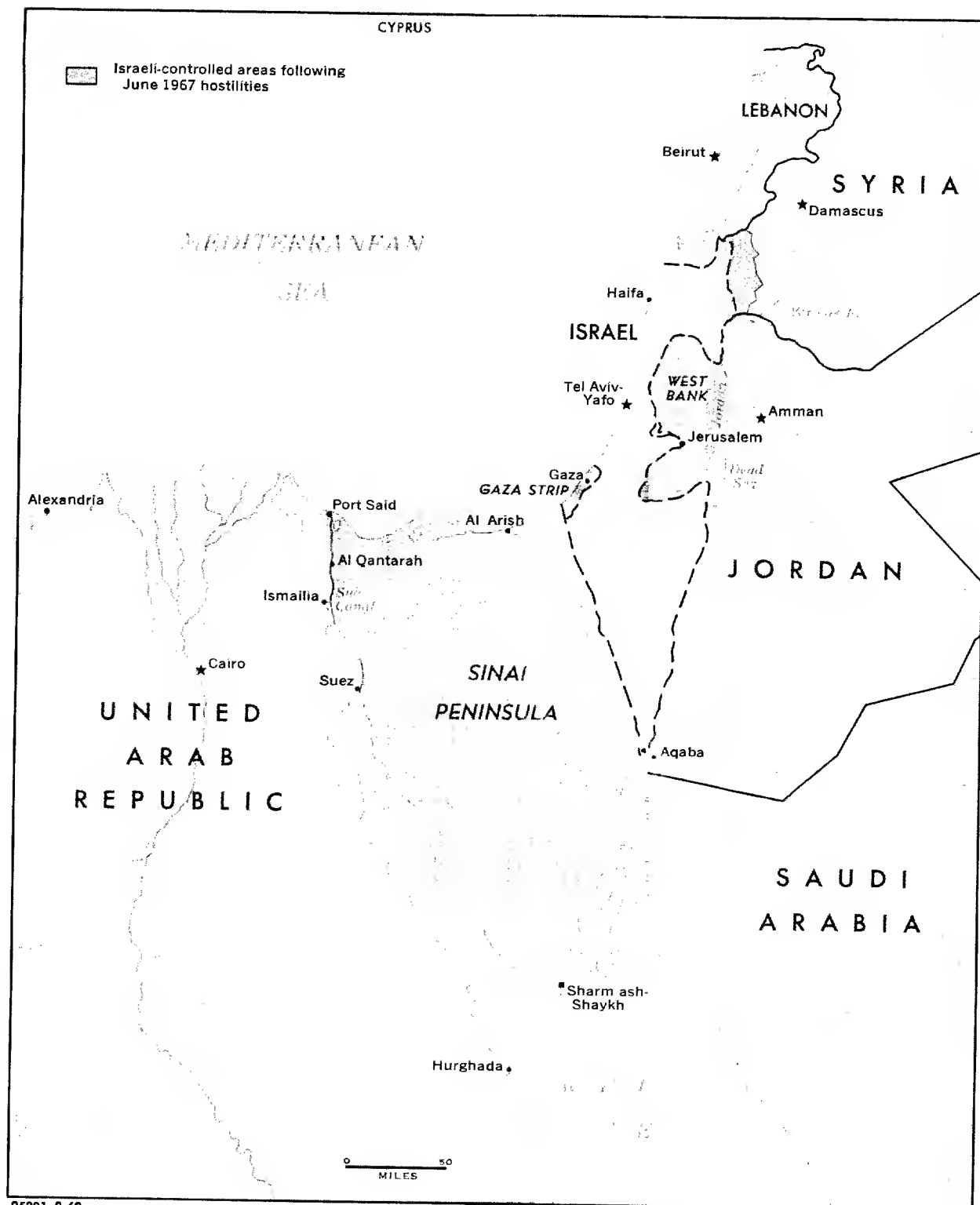
A Kresta-class guided missile cruiser, a guided missile frigate, and an Alligator-class landing ship which entered the Mediterranean from the Black Sea earlier this week are proceeding directly across the Mediterranean and probably are headed for the Indian Ocean and eventually to the Pacific Fleet. This will mark the first deployment of one of the new Kresta-class cruisers to the Indian Ocean as well as the first time a Soviet amphibious ship has operated there.



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Arab States - Israel: Terrorist incidents and border clashes continue, as Arab pessimism over the chances for a peaceful settlement deepens.

For the second time this summer, Arab fedayeen yesterday blew up a section of the oil pipeline serving Israel's only refinery at Haifa. As in the earlier attack, two rival commando organizations, Fatah and the Popular Front for the Liberation of Palestine, have claimed credit for the action. Along the Suez Canal intermittent exchanges of small arms and artillery fire continue to occur daily, although not as intensely as last month.

Although there is little public concern in Cairo over the recent fighting along the canal, there is increasing official concern with Egypt's security and a fatalistic acceptance of the necessity for prolonged warfare with Israel. It is generally believed by the more sophisticated Egyptians that Egypt will suffer more damage than Israel for some time to come, but eventually the military balance will swing in favor of the Arabs.

US representatives in Egypt report that their Egyptian contacts believe that the current Israeli policy on withdrawal from the occupied territories has ruled out the possibility of a peaceful settlement. This mood of pessimism is accentuated by the extensive publicity being given to the coming delivery of US Phantom aircraft to Israel, and by official pronouncements decrying the latest US proposals for a settlement.

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NOTES

Iran: Prime Minister Hoveyda's recent cabinet shuffle has strengthened his position, but no new departures in domestic or foreign policy are in the offing. Most of the changes occurred in the economic ministries, and some were designed to replace ineffective administrators. The cabinet shuffle should end for the present rumors that Hoveyda would be replaced as prime minister. It also enhances his personal role. The changes apparently were made without consulting the majority political party in Iran, an indication of the party organization's dwindling political role. [REDACTED]

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Communist China: Peking's special emphasis this year on a countrywide summer sanitation campaign may stem from concern over the spread of epidemic-type diseases by the millions of city dwellers being sent to work on farms. Such diseases are prevalent during the summer. In addition to the usual instructions to rid cities, towns, and farming areas of pests such as flies, editorials and broadcasts are calling for the removal of garbage and "night soil," indicating that routine sanitary services still have not fully recovered from the disorders of the Cultural Revolution. Moreover, the dispatch of hospital medical staffs to work on farms, which already has seriously restricted urban medical services, would add to the problem of epidemic control. [REDACTED]

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